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SUBJECT: CVRD EXECUTIVES LAMENT INCREASING CHINESE INFLUENCE OVER
LATIN AMERICAN NATURAL RESOURCES

11. (SBU) Summary. During a May 18 office call on the Ambassador, CVRD executives expressed their concern about increasing Chinese influence over both natural resources and the distribution/transportation infrastructure needed to export these resources to distant markets. In the future, they warned, the USG would need to pay greater attention to where its raw materials would come from as China hoped to lock up both South America and Africa as its suppliers. The Ambassador queried our interlocutors regarding what steps they were taking to ameliorate Brazil's infrastructure deficit. He noted that the key question were how can both the USG and the U.S. private sector best be of use and what was the GOB willing to do, adding that this issue would certainly be on the agenda during the upcoming early July visit of Treasury Secretary Paulson to Brazil. End Summary.

12. (U) On May 18, Ambassador met with Roger Agnelli and Tito Martins, CEO and Executive Director, respectively, of the Brazilian multinational minerals giant Companhia Valle do Rio Doce (CVRD). CVRD is a global mining company and world's largest producer of iron ore. Agnelli became Chairman of CVRD's Board of Directors in 2000 and was named CEO a year later. Formerly a GOB parastatal but privatized in 1997, CVRD currently has a presence in 14 Brazilian states and 5 continents (the Americas, Europe, Africa, Asia and Australasia) and is part of the emerging class of Brazilian industrial giants which are now investing overseas.

13. (SBU) Agnelli noted the strategic importance of both Brazil and Latin America in terms of the world resources. Brazil, he observed, had large quantities of uranium, oil, gas, and iron ore (30 percent of the world's supply of the latter), while its neighbors were rich in natural resources as well. Venezuela had vast reserves of oil, Peru was a key producer of tin and gold, and Bolivia and Argentina were rich with gas. Even Cuba was important as it, along with New Caledonia, had one of the two key international deposits of nickel.

14. (SBU) For this reason, he said, China was eagerly looking at

South American commodity reserves as potential raw material to fuel its future industrial expansion. The Chinese plan, he continued, was to eventually control not only the continent's mineral deposits but the distribution/transportation networks and the port infrastructure as well. China's efforts to woo both the Chavez regime in Venezuela and the Castro government in Cuba were all part of Beijing's long-range plan to increase its influence over Latin American countries and its access to their mineral resources. Comment. As CVRD derives much of its record profit from sales of iron ore to China, in many ways it is a willing partner. Indeed, Martins is a Director of the Brazil-China Business Council and Agnelli himself sits on that organization's Consultative Committee. End Comment.

15. (SBU) Agnelli pointed to Africa as an example of what could happen when the Chinese gained excessive influence. CVRD had lost contracts in Gabon and Angola, and was fighting a fierce battle to retain markets in Mozambique and South Africa. If China locked up African reserves, he said, this would create imbalances in the international market as the remaining customers in the U.S. and Europe would have to pay high prices as key stocks would effectively be off the market. The USG need to think seriously, he declared, as to what would happen if the Chinese won the struggle for access to commodities. The PRC already had a leg up, he noted, as in China such decisions were made by government while in the U.S. private sector buyers looked at the issue in a much more decentralized fashion.

16. (SBU) Shifted gears, the Ambassador turned to the subject of the infrastructure deficit in Brazil. The difficulty in getting product from mine to market contributed greatly to "custo Brazil,"

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i.e., the high cost of business associated with doing business here. He queried Agnelli whether CVRD was working to help build the country's rail network so as to improve the situation. Agnelli noted that while CVRD had one rail project on the books, Brazil's real need was improvements in its port infrastructure. The private sector was helping to close the infrastructure deficit through concessions, but the Brazilian government was failing to do its part as it because it had so little available funds to invest, he said. Agnelli concluded that the multilateral development banks, and specifically the World Bank, needed to provide greater financing for public infrastructure projects in Brazil.

17. (SBU) In response, the Ambassador asked about other sources of funding alternative to the World Bank. For instance, he noted that OPIC was a potential financing sources and that U.S. companies would like to find a way offer their services. The key questions were how can both the USG and the U.S. private sector best be of use and what was the GOB willing to do, adding that this issue would certainly be on the agenda during the upcoming visit of Treasury Secretary Paulson to Brazil.

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